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TRADE POLICIES, STRUCTURAL ADJUSTMENT AND ECONOMIC REFORM: INCREASED PARTICIPATION IN INTERNATIONAL TRADE IN GOODS AND SERVICES BY DEVELOPING COUNTRIES AND ECONOMIES IN TRANSITION: SOME PROBLEMS AND OPPORTUNITIES

Report by the UNCTAD secretariat

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*The Annex tables are published separately in document TD/B/40(2)/7/Add.1.

ABBREVIATIONS

CAP	Common Agricultural Policy of the European Union
CEECT	Central and Eastern European countries in transition
CEFTA	Central European Free Trade Area
CIS	Commonwealth of Independent States
CMEA	Council for Mutual Economic Assistance
EEA	European Economic Area
EFTA	European Free Tráde Association
EU	European Union
FDI	foreign direct investment
FSU	former Soviet Union
GATT	General Agreement on Tariffs and Trade
GSP	generalized system of preferences
PHARE	Poland-Hungary Assistance for the Reconstruction of the Economy
TACIS	Programme of Technical Assistance to the Commonwealth of Independent States
TNCs	transnational corporations
VERs	voluntary export restrictions
WTO	World Trade Organization

INTRODUCTION

(i) At its eighth session, the United Nations Conference on Trade and Development called (in paragraph 63 (1) of the Cartagena Commitment) for mutually supportive efforts at national and international levels to ensure enhanced participation in the world economy of developing countries, as well as countries undergoing the process of transition to market economies. In paragraph 129, the Conference specifically invites member States to support the process of transition to a market economy and liberalize their trade regimes. It also calls upon UNCTAD to identify the opportunities resulting from the above developments for the mutual benefit of developing countries and individual economies in transition, notably through technical assistance. The Trade and Development Board is requested to periodically assess the above process.

(ii) In the light of the above and on the basis of its work programme for 1992-1995, the Board, at the first part of its fortieth session, decided to include in the provisional agenda for the second part of the same session, under item 2, the topic: "Increased participation in international trade in goods and services by developing countries and economies in transition: some problems and opportunities."

(iii) Thus far, the Trade and Development Board has considered, under the general agenda item of "Trade policies, structural adjustment and economic reform" discussed at the second part of its thirty-ninth session the issues relating to economic and trade policy reforms in developing countries and the international support required. The second part of the fortieth session will provide the opportunity to consider jointly the issues involved in increasing the participation of developing countries and of the economies in transition in international trade. Furthermore, the tentative work programme for the Trade and Development Board foresees for the spring session of 1995 a third part to the discussions on trade policies, structural adjustment and economic reform, focusing on "Developments relating to structural adjustment policies in developed countries and their implications".

(iv) This report has been prepared to facilitate the Board's deliberations on the topic before it at the second part of its fortieth session. Chapter I deals with selected issues encountered by developing countries and economies in transition with respect to their increased participation in international trade. Chapter II focuses on problems encountered by economies in transition in their mutual trade and economic cooperation. Chapter III deals with trade and investment cooperation between economies in transition and developing countries, measures to stimulate its expansion and international support required.

CONCLUSIONS AND POSSIBLE AREAS FOR INTERNATIONAL COOPERATION

(v) There exists a broad consensus within UNCTAD that the trade policy reforms under way in developing countries require complementary international support. Substantially improved market access is needed to act as a counterpart to the opening of their economies. Increased flows of investments, technologies, managerial skills and financial resources are required to strengthen their supply capabilities and competitiveness on world and domestic markets. While the implementation of the Uruguay Round results will be a major step forward for providing a more stable multilateral trading framework, trade barriers affecting their major export products, i.e. agricultural products, processed food, clothing and textiles, will remain high for a long period ahead. Accordingly, the conclusion of the Uruguay Round needs to be complemented by a substantial improvement of the generalized system of preferences. The Special Committee on Preferences should take early action to stabilize, improve and extend the benefits of the GSP scheme in favour of developing countries' exports.

(vi) Special efforts need to be made to liberalize imports of all types of export products of least developed and African countries, whose preferential market access has been substantially eroded by the rapidly widening scope of regional integration among developed countries and multilateral trade liberalization.

(vii) The Visegrad countries (Czech Republic, Hungary, Poland and Slovakia), Bulgaria and Romania have progressed considerably with their trade policy reforms, their integration into the multilateral trading system, and the establishment of closer economic ties with Western European countries. The Baltic States and most CIS countries are, however, still at the beginning of this process. Major efforts are still needed to put into place or complete an adequate trade policy and financial framework for its conduct of international trade; to revive and expand trade and investment cooperation amongst economies in transition and with developing countries, as traditional patterns have collapsed; and to modernize and rationalize the supply and export capacities of the countries concerned, as well as their infrastructure and services.[1]

(viii) The transition process can be accelerated and strengthened by international support, which should take the form of long-term programmes. Technical support programmes in the foreign trade sector should be intensified. Special attention should be given to the particular needs of the weaker economies in transition amongst the CIS States and in South-East Europe. UNCTAD's substantive work and technical cooperation could be useful in such fields as the strengthening of export support policies and instruments and enhancing of capacities for international trade

negotiations; design of investment policies and support for negotiations with foreign investment partners; training of enterprise staff for trading in international commodity markets; streamlining of customs administration and trade procedures; and human resource development.

(ix) The most effective forms of international support, in particular by developed countries, for the transition to market economies would be an accelerated opening of their markets for exports of goods and services from economies in transition, as well as the encouragement of their firms to invest in those countries, inter alia through investment financing and risk insurance schemes.

(x) Negotiations on GATT membership and the renegotiation of the special protocols of accession on the basis of the Uruguay Round results should be fully supported by the international community. Economies in transition should be treated as normal trading partners, and trade relations with them should be based effectively on unconditional MFN treatment and the elimination of all residual elements of past discriminatory trade regimes applied against these countries.

(xi) Discriminatory treatment applied against certain developing countries such as China, Viet Nam and Mongolia with regard to the application of GATT rules, quantitative restrictions and tariffs should be progressively removed, to the extent that their economic and trade policy reforms progress and the introduction of enterprise economy and price deregulation advance. Initiatives of such countries for closer integration into the multilateral trading system should be encouraged.

(xii) The revival and expansion of mutual trade and investment relations amongst economies in transition should attract high priority, as its collapse was one of the main factors responsible for the decline in their GDP. Large opportunities can be opened up by the creation of new relationships between autonomous enterprises based on market principles and instruments. The various new regional integration initiatives within CEFTA, the Baltic States and CIS merit full international support.

(xiii) A substantial potential for expansion of trade between developing countries and economies in transition exists in the medium-term, when Central and Eastern European countries will reach a trade intensity with developing countries similar to that reached by Western European countries now (see chapter III). However, thus far, the disruption of traditional links between major developing country suppliers and CIS States has more than offset the incipient recovery of imports of some Central European countries from developing countries.

(xiv) A more widespread revival of mutual trade and the exploitation of potential opportunities will need the progressive establishment of a framework of national policies and cooperative measures: (a) liberal import and export policies should be applied to mutual trade: inter alia, all industrialized CIS States should apply GSP treatment to developing countries; developing countries should be exempt from increases in MFN duties through the stabilization of GSP rates; (b) trade financing and export risk guarantee schemes should cover trade with developing partners and economies in transition; (c) central banks and foreign trade banks of economies in transition should cooperate with their counterpart institutions to facilitate payments, trade and investment financing; (d) investment and technological cooperation should be fostered, including joint ventures for exports, through tax, financial and logistical government support measures, economic and investment cooperation agreements, double-taxation agreements and the like; (e) initiatives by chambers of commerce and industry, business associations and similar representative organizations of the business sector should be multiplied to stimulate enterprise-to-enterprise cooperation; (f) intergovernmental consultations with developing countries could be reinforced in appropriate cases by the assignment of trade counsellors.

(xv) International support and technical cooperation can make an important contribution to reviving trade and economic cooperation between economies in transition and developing countries and fostering the new potential. More specifically, technical cooperation by developed countries and international organizations would be particularly useful in such areas as:

(a) Provision of financing for mutual trade, for example through untying of aid for procurement in developing countries; in addition the feasibility of a special window with an existing multilateral development bank, such as EBRD or the World Bank, should be explored;

(b) PHARE, TACIS and similar programmes should be extended to trade and investment cooperation with developing countries;

(c) Concessional finance should be provided to mobilize technical expertise available in economies in transition for revitalizing cooperation with developing countries;

(d) The feasibility of an international co-financing facility for joint ventures between economies in transition and developing countries should be explored.

(xvi) UNCTAD can provide a forum for economies in transition, including the newly independent States, for the conduct of intergovernmental consultations on issues of trade and the external

sector within its mandate. UNCTAD can further provide technical assistance in support of their negotiations for full integration of economies in transition into the international trading system, their mutual cooperation and integration, their trade and economic cooperation with developing countries and training as specified in the various sections of this report. Furthermore, various areas of UNCTAD's work programme could be of interest to economies in transition in their efforts to accelerate and strengthen their transformation process in such areas as trade, investment and technology policies, commodities, and the exchange of experience in respect of privatization.

Chapter I

PARTICIPATION IN INTERNATIONAL TRADE BY DEVELOPING COUNTRIES AND ECONOMIES IN TRANSITION: SELECTED ISSUES

A. Issues and problems faced by developing countries in their participation in international trade

1. By pursuing their structural adjustment and economic reform programmes, a large number of developing countries have turned resolutely towards the opening of their economies and an outward-oriented approach to development. Increased and diversified exports are expected to provide a motor for economic growth where liberalization of imports, coupled with improved attraction of foreign investment and technology transfers, is to spur international competitiveness and efficiency of production and improve allocation of resources.

2. Actual experiences regarding the success of outward-oriented policy strategies are, however, mixed.[2] Export growth and diversification have frequently remained below expectations, and progress in building and diversifying industrial export capacity has turned out to be a particularly difficult and long-term task. There is considerable evidence to show that the operation of supply-side reforms directed towards increased participation in the world economy requires longer time periods and substantial international support to yield significant improvements in trade, production and investment, in particular in medium- and low-income countries.

3. Major problems also persist with respect to market access. Developing countries' trade will have to be expanded and diversified on a global scale with developed countries, with economies in transition and among themselves. They need liberal market access for all their main exports, as well as stability and security of international trading conditions. Furthermore, the new dynamism in the formation and expansion of regional integration groupings around major trading nations has raised new concerns but also brought about new opportunities and challenges for developing countries' integration into international trade.[3] Yet another issue in the promotion of trade of developing countries is the need to take into account aspects of sustainable development within a framework of clear multilateral rules and without restricting market access.[4] Finally, the transformation of Central and Eastern European economies may imply short-term problems for developing countries, but opens up important new prospects for the medium-term (see chapter III).

1. Supply-side constraints and trade policy reforms

4. Despite a decade of intensive structural adjustment, economic reforms and trade liberalization in developing countries, severe supply-side constraints remain a prominent feature in the great majority of developing countries.[5] Inadequate investment funds, scarcity of human resources and insufficient technological capacities continue to be major bottlenecks which inhibit improvements in export potential and competitiveness.

5. The least developed countries, including many African economies, face particularly challenging supply-side constraints. Human skill development in these economies requires substantial external support. Moreover, the least developed countries are most in danger of suffering from technological marginalization. Much more needs to be learned about criteria for selecting in situ technology-related projects in countries with low incomes and an underdeveloped technology base.[6]

6. Policy experiences of rapidly growing exporters in East Asia suggest that high domestic saving and investment rates, an emphasis on educating and training the labour force, flexible labour markets and access to imported technology and production methods have been factors contributing to the success of these Asian economies on the supply side. The scope of government intervention through trade and industrial policies has varied among these countries, but evidence indicates that interventions broadly conformed to the market where success was observed.[7]

7. The Trade and Development Board has recognized the need for technical cooperation to assist in improving the design and implementation of trade policy reforms.[8] Such programmes should incorporate a social component and provide for an appropriate safety net. There is a consensus that the international community should support these efforts in developing countries, particularly the least developed, including through increased flows of financial resources and debt relief. The Board has further agreed that human resource development constitutes an essential component of strengthening international competitiveness. Furthermore, developed countries ought to provide on a larger scale incentives and assistance conducive to technology transfer and foreign direct investment in developing economies.

8. International support to facilitate the transfer of technology to developing countries could make use of market-based price incentives, in particular for the transfer of specific, critical technologies.[9] Moreover, joint ventures and industrial collaboration between enterprises in developed and developing countries should be promoted to enhance investment and transfer of technology, improve management and increase exports.[10] The Ad Hoc Working Group on the Expansion of Trading Opportunities for

Developing Countries is considering further ways to strengthen export supply capacities, as well as measures to improve market access.

2. Issues relating to market access

9. Developed country markets remain of pre-eminent importance for most developing countries. In spite of considerable efforts and progress in diversification of geographical trading patterns, developing countries as a group still rely on these markets for almost 60 per cent of their exports; this dependence exceeds 70 per cent for Latin American countries and 80 per cent for African countries.

10. While trade liberalization and outward-oriented trade policies have been common features in the recent international trade scene for many developing countries and economies in transition, there was little improvement with regard to these countries' access conditions to the markets of developed countries until the conclusion of the Uruguay Round. Protection of agricultural products, clothing, textiles, etc., has continued, while threats to revert to protectionism and managed trade have not totally disappeared. When developed countries followed a liberalization path, this was done in a cautious manner. Further, unilateralism and selective application of trade measures have remained a problem for developing country partners.

11. Some recent developments have given rise to new concerns for developing countries. In principle, the completion of the single market of the European Union called for the elimination of the remaining national quantitative restrictions applied by individual member countries (except for textiles and clothing). However, in a few highly important cases involving agricultural exports, new problems arose.[11] Furthermore, certain developing countries, including some which have undertaken major economic reforms and progressed towards market economies (such as Viet Nam, China and Mongolia) are still subjected by developed countries to discriminatory quantitative restrictions, tariffs and provisions with respect to dumping, subsidies and safeguards (see chapter I.B.2). Some developing countries remain subject to United States embargoes. For others, MFN treatment by the United States is conditional.

12. Anti-dumping and countervailing measures may be used to afford protection to domestic industries which suffer as a result of increased imports from more competitive sources. The annexed table 1 shows that the use of these measures has generally increased dramatically, as cases initiated almost trebled between 1990 and 1993. In more than half of the cases where anti-dumping action was initiated, no definitive anti-dumping duties were imposed: nonetheless, the initiation of investigations and provisional anti-

dumping duties leads to substantial harassment of exporters and might hamper trade substantially, even if the final conclusions of such investigations show that claims of dumping were not justified. The number of anti-dumping actions involving imports from developing countries has increased since 1991.

13. The implementation of the Uruguay Round results is expected to lead to an important liberalization of international trade. It will strengthen multilateral disciplines and impart greater security and stability of market access conditions, for example in connection with the application of safeguards and anti-dumping and countervailing measures. However, major product sectors of particular export importance to a majority of medium-sized and smaller developing countries will remain subject to high barriers for a long period ahead. This will be the case for clothing and textiles, where the phasing-out of quantitative restrictions will not lead to their final elimination for a decade; agricultural and food products, where tariffication will result in high rates in many cases; and a range of other sensitive products like shoes, leather products, and consumer electronics, where tariffs remain relatively high. Other major issues remain unresolved: internal barriers to market access, restrictive business practices, and environmentally motivated restrictive trade measures will require complementary international action to assure competitive market structures and improved market access.

14. Thus, the progress achieved by the Uruguay Round of Multilateral Trade Negotiations needs to be complemented by a profound improvement of the generalized system of preferences. The tariffication of quantitative restrictions should enable a significant extension of product coverage and compensate to some extent the erosion of preferences through the Uruguay Round and the spread of economic integration schemes. The reduction of tariffs for industrial products to low levels should enable a substantial simplification of the GSP schemes for such products, including the removal or harmonization of ex ante safeguards and ceilings, the reduction of remaining preferential duties to zero, and a substantial simplification of administrative provisions. Many restrictive criteria and procedures of GSP rules of origin should no longer be required at low duty levels.

B. Issues and problems encountered by economies in transition in their participation in international trade

1. Progress made in the transition process in trade and trade-related areas

15. The transition from centrally planned to market economies comprises a complex transformation of economic and social structures with many facets such as: decentralization of economic decision-making; a change in governments' role from direct

involvement in production and trade to macro-economic management and the elaboration of an appropriate legal and institutional framework; price-liberalization; privatization; financial liberalization; banking reforms; fiscal reforms; building of a social safety net; and trade policy reforms and the liberalization of imports and exports.[12] This report focuses on the trends of and issues arising from transition processes which are essentially related to trade and investment. As the transition processes in the various countries of Central and Eastern Europe started at different points in time and from different starting points with regard to their production and foreign trade structures and were pursued within the framework of different strategies, the progress achieved varies widely between countries. This differentiation amongst countries in transition is important for understanding the underlying processes and for the design of appropriate policy measures.

16. With regard to the external sector, the main progress achieved thus far includes a substantial opening of foreign trade and investment, profound changes in monetary and foreign exchange management and control and, in particular, the rapid transfer of decision-making on foreign trade, investment and prices from government institutions to fully autonomous enterprises. This internal transformation was accompanied by varying combinations of external strategies. All countries have taken initiatives to strengthen their integration into the multilateral trading framework and the various international organizations concerned with trade and financing. Visegrad countries have complemented their continuing efforts for full GATT integration[13] by a vigorous strategy of rapid and full-scale integration into the European Union, as well as trade liberalization within CEFTA.[14] Their example is being closely followed by Bulgaria, Romania, and the Baltic States. CIS States are only in the earlier stages of negotiating GATT membership or obtaining observer status. Russia is presently in an advanced stage of negotiations on an economic cooperation and partnership agreement with the European Union. A Joint Political Declaration on Partnership and Cooperation was agreed upon in December 1993 which sets out the main principles and measures for political, trade, economic and cultural cooperation as a basis for early finalization of the Agreement. CIS has laid major emphasis on mutual integration and the establishment of an economic union. Some of the Central Asian countries are pursuing actively the intensification of their economic relations with neighbouring developing countries and their groupings.

17. A striking change in all these economies is that, instead of a limited number of large, tightly controlled, monopolistic foreign trade organizations, there are now thousands of small, medium-size and large enterprises which decide autonomously on production and prices and carry out foreign trade operations on the basis of market conditions and prices. The emergence of a new and

autonomous small and medium-scale enterprise sector will radically change partners, channels and modalities and substantially enlarge the opportunities for foreign trade and international specialization.

18. A second area of progress has been the liberalization of exchange controls, foreign trade and investment from administrative barriers and largely also from quantitative controls, which are gradually being replaced by market-oriented trade policy instruments. Most advanced in this direction are the Visegrad countries, Bulgaria and Romania. Their principal trade policy instruments are customs tariffs, which frequently ranged between 5 and 15 per cent in 1992/1993. Substantially higher MFN rates (which may reach 20 to 40 per cent or more) are applied to agricultural products, clothing, textiles, some other consumer goods, and automobiles as well as tobacco products and alcoholic beverages. After initial liberalization at the start of the reforms in these countries, there has been a tendency to increase tariff protection again more recently. The average effectively applied MFN tariff in 1992/1993 was about 18 per cent in Poland,[15] 13 per cent in Hungary, 14 per cent in Romania, 18 per cent in Bulgaria and 6 per cent in the former Czechoslovakia, where imports also remained essentially free of quantitative restrictions. Some of these countries apply quantitative restrictions, licensing, variable levies and other non-tariff measures, in particular to imports of agricultural products, processed food, certain clothing and textiles, cars, etc.

19. In principle, in these countries the legal and institutional reorganization of foreign trade (investment, banking and related sectors) is far advanced, and many of the necessary market economy mechanisms are already installed and operational.

20. The Baltic States have made steady progress in their transition to market economies, in particular in the foreign trade sector. Imports have been largely freed from administrative regulations and quantitative restrictions and tariffs are relatively low, though certain exports remain subject to high tariffs, quotas and state monopolies. Their foreign trade strategies emphasize negotiation of GATT membership, mutual integration, and close cooperation with the Scandinavian countries through free trade area agreements.

21. Amongst the CIS countries, Russia is the most advanced in the area of trade policy refor . A custom tariff has been introduced. MFN duties have been modified and presently range between 5 per cent and 30 per cent for most products. New regulations on quality and safety control and a substantially undervalued rouble exchange rate create additional protection. However, there are no quantitative restrictions on imports. In order to ensure domestic supplies, export quotas and tariffs are imposed on a range of

"strategic goods" like raw materials and energy products. Exports of these "strategic goods" are permitted only by specially authorized traders.[16] Ukrainian tariffs generally range between 10 and 20 per cent (with the exception of revenue duties). Imports are free from licensing and quantitative restrictions. Exports of several strategic commodities are subject to export tariffs, while exports of non-ferrous metals, petroleum and some other products are subject to export quotas and licensing.

22. Many of the other CIS countries are only now introducing their own national currencies and fully fledged Central Banks. Some basic institutional mechanisms of foreign trade are still missing; they have not yet introduced customs controls, tariffs and complete foreign trade legislation or are only in the process of doing so. Many of them lack basic instruments to support foreign trade by enterprises, such as financial institutions, or training of export management in foreign trade and investment.

23. The trade and foreign exchange regimes emerging in Central and Eastern European countries should be kept open to imports from all potential trading partners. Customs tariffs should be maintained only at moderate rates, and quantitative import and export restrictions should be progressively relaxed and ultimately removed. Towards this end and in order to improve their capacity to resist protectionist pressures from domestic enterprises and foreign investors, economies in transition should consider the recommendation of the Cartagena Commitment (paragraph 132) to establish transparent national mechanisms to evaluate protective, safeguard and anti-dumping measures. Such national mechanisms should assess the economic justification for these measures and their potential effects for the domestic economy as a whole, as well as evaluate their implications for foreign trading partners, in particular developing countries. The UNCTAD secretariat could provide information on the working of such mechanisms and technical advisory services for their establishment, if required.

2. Major issues and concerns

24. A major continuing problem in the foreign trade sector is that the transformation process has not yet led to vigorous growth of overall foreign trade and investment. The disruption of traditional trade continues to affect adversely production and employment in many of the countries in transition.

25. Even Visegrad countries, which have achieved considerable success in reorienting their external trade and investment relations, have suffered from a perceptible decline in their exports in real terms since 1988. Even in nominal terms, their global exports have not yet again reached their 1988 level. These meagre overall results conceal, however, a substantial transformation of their foreign trade patterns; most of their

trade is now conducted on competitive terms with developed and developing market economies. The major dynamic segment has been the growth of trade with industrialized countries: exports expanded vigorously by 60 per cent between 1989 and 1992 and the share of these markets rose from 40 to 67 per cent.

26. Other countries in transition, and in particular the CIS States, have also felt the serious negative impact of their foreign trade sector on production and employment. According to estimates, foreign exports and imports of the former Soviet Union about halved between 1989 and 1992 (see annex table 3).

27. A vital common concern of economies in transition is that, in spite of considerable improvements in market access, major barriers continue to exist with regard to their main export products in the major developed country markets, and new barriers are being built up by selective application of quotas, VERs and anti-dumping and countervailing measures where their exports are starting to expand (see section 2 below).

28. This issue of market barriers confronted by major exports is closely linked with problems related to the production structure of these countries and their narrow export supply capacities. The modernization, conversion and rationalization of production is in most economies in transition only beginning. Considerable efforts are still required to adjust products to make them competitive in terms of quality, standard, design and price on the international market. The present supply of export products has not substantially changed in relation to previous patterns. This is particularly the case in CIS countries. In 1992, half of their exports to developed countries, which are frequently used as an indicator for international competitiveness, consisted of energy. Other important export products included non-ferrous metals (copper, aluminium, silver), steel, chemical fertilizers, uranium, fishery products and basic commodities (such as cotton, diamonds, etc.). Some of these exports are growing. In addition, such products as heavy electrical machinery, as well as cars and components, are also rapidly gaining ground on Western markets. However, exports of most Central Asian countries are particularly highly concentrated on a few basic commodities, such as cotton or metals, and these countries face the most pronounced need for new investment in processing capacities and the diversification of their export products.[17] As compared to CIS, the export success of Visegrad countries in developed countries' markets is more diversified: clothing exports (including an important processing traffic), metal manufactures, cement, wood, leather manufactures and similar products accounted for about two-thirds of the total export increase over the past four years. However, dynamism was even greater for certain machines, heavy electrical equipment and vehicles, which now account for about one-sixth of total exports from Visegrad countries (and have overtaken agricultural products,

with their 10 per cent share). In spite of these shifts, the bulk of the exports from economies in transition are in sensitive sectors of the developed countries' economies, i.e. sectors where demand growth is slow, over-capacities are large, and unemployment high. Protectionist resistance against a more expeditious opening of markets is, therefore, strong.

29. In some of these sectors, the increased export supplies of economies in transition will also compete with those of developing countries, which are also major exporters of base metals, fertilizers, cotton, clothing, etc. Such effects may be reinforced where economies in transition enjoy market access advantages over developing countries in the framework of regional preferential arrangements with major developed countries.[18]

30. These prospects may, however, change in the medium and longer run, as the structural transformation of Central and Eastern European countries brings their technological capacities, high skill levels and closeness to European Union markets fully into play. Diversification of export patterns into more processed, higher-technology and higher-quality products is likely to advance.[19]

31. Important institutional mechanisms needed to help strengthen export supply capabilities are frequently still missing. In this connection, the reform of the banking sector is crucial for commercial transactions, trade and investment finance. Government-supported foreign trade banks, export credit guarantee schemes, investment banks and investment advisory services for potentially interested domestic and foreign investors are not yet functioning effectively in some of the countries in transition, in particular CIS countries, including Russia. Their scope of action is frequently limited in others, such as the Visegrad countries.[20]

32. Large amounts of <u>financial and technical assistance</u> and a vigorous promotion of foreign direct investment formed part of the external support originally considered to be required for successful transformation.[21] Little of the financial aid has actually been forthcoming, apart from debt reduction and in some specific sectors, such as energy and environmental projects.[22] Substantial technical assistance has, however, been effectively provided under various international, regional and bilateral programmes, including PHARE, TACIS and corresponding EFTA programmes, in support of the building up of market mechanisms, sectoral reforms and training.[23]

33. Various UNCTAD activities could also be of interest in the context of the strengthening of the external sector. UNCTAD's Programme on Transnational Corporations provides technical advisory services to individual countries in transition for the reform of their foreign investment policies, incentives and accounting

standards, as well as for their relations with the TNCs. This assistance has included, inter alia, programmes to strengthen the capacities of specialized research and development centres for marketing their technologies and for creating new linkages with TNCs for that purpose. A further important component has consisted of advisory services for economies in transition in the petroleum and mineral sectors for the modernization of their investment policies and legislation and the review and evaluation of specific investment contracts.[24] Furthermore, UNCTAD can assist in the formulation of foreign trade policies and instruments, as well as in the strengthening of capacities for international trade negotiations, including negotiations on accession to GATT. In the field of commodities, UNCTAD can provide technical advice and training in specialized commodity trading and its financing. Furthermore, UNCTAD's programme for streamlining of trade and customs procedures, customs computerization, trade information and the establishment of trade points can also be extended to interested economies in transition. Other existing programmes for human resource development, including TRAINFORTRADE's training programme for enterprise management staff and government officials, could also be extended and adapted to specific country needs, with as the courses on trade policies, trading with the European Union or trade and environment. More generally, UNCTAD's intergovernmental consultations and research could be of interest to economies in transition in various areas relevant to the transition process, such as: the functioning of commodity markets and risk management, as well as policies for commodity processing and diversification; the relationship between investment and technology and its financing; or the exchange of experience of member States with privatization.

34. Foreign direct investment in productive sectors has so far been limited. Estimates for FDI flows to Central and Eastern European countries show a substantial rise from about US$300 million in 1990 to US$2.4 billion in 1991 and US$2.7 billion in 1992.[25] Nevertheless, these amounts remained far behind the estimated needs of the transformation process. Thus far, FDI has taken on a major dimension only in Hungary (accounting alone for about 1.5 billion dollars p.a.) and to a lesser extent more recently in Poland. Meanwhile, the number of new commitments and registrations has increased rapidly since the beginning of 1993 in Romania and CIS, in particular in the petroleum and mineral sectors. Accelerated growth of foreign investment registrations has also continued in the Baltic States.[26] Even taking these recent trends into account, it would appear that up to now fears of competition and crowding out of FDI in developing countries have not been substantiated. FDI in economies in transition represents only a small fraction of worldwide FDI and remains small in comparison with FDI in developing countries. Furthermore, the latter has been rapidly growing in recent years (to a level of US$38 billion in 1992).

35. FDI remains clearly insufficient in comparison with the role which it is expected to play in the rationalization and technological upgrading of the economies in transition. This is also true for the reform processes of many smaller and medium-sized developing countries. As a complement to continued reforms by host countries, developed countries should also take measures to encourage FDI by their companies through financial and fiscal measures and investment risk guarantee schemes.

3. The integration of economies in transition into the international trading system

36. When countries in transition began transformation of their economies, their trade faced highly restrictive import and export regimes in major developed countries. These regimes discriminated against trade in various ways, including denial by a major trading country of unconditional most-favoured-nation treatment, even to some Central and Eastern European countries which had become contracting parties to GATT. As a result of a substantial improvement in trade regimes, most countries in transition are now granted MFN treatment by major trading countries, although the United States still differentiates between individual countries in transition in terms of granting them permanent or fixed-term MFN. In November 1993, members of the Coordinating Committee for Multilateral Export Controls (COCOM) announced their decision to terminate the activities of this body no later than 31 March 1994 and to replace it with a new organization that would include economies in transition and other countries.[27]

37. Developed countries have further taken measures to open their markets in favour of countries in transition at the MFN level or on a mutual basis, within Europe Agreements and EFTA Free Trade Agreements, and this has resulted in tariff reductions and some liberalization of several quantitative restrictions. Some of the economies in transition are receiving GSP treatment. This is, for example, the case of the Russian Federation, the other CIS States and the Baltic States vis-a-vis the European Union, some EFTA countries and Canada, as well as of the Visegrad countries, Bulgaria and the Russian Federation vis-a-vis the United States in the United States. However, some of the relatively less advanced Central Asian Republics frequently do not enjoy GSP benefits, for example in the United States,[28] the Scandinavian countries and Japan. For its part, Albania is not a GSP beneficiary in Sweden, Japan and the United States.

38. In spite of progress achieved, economies in transition still face a number of non-tariff measures, including levies and quantitative restrictions, in major markets for agricultural products, textiles, clothing, and other industrial exports. Some quantitative restrictions and special import procedures are specially targeted at them. In the European Union special national

restrictions of this type remain on a number of products from CIS countries (as well as such developing countries as China, Viet Nam and Mongolia), though their phasing-out is expected within the Single Market.[29] The European Union also introduced new selective quantitative restrictions at the Community level on imports of steel, aluminium and fertilizers from CIS States, as well as some VERs for products originating from Europe Agreement Partners.[30]

39. Furthermore, other residual elements of trade regimes previously applied to imports from these countries have continued to apply until now and remain an important obstacles to the countries' integration into the international trading system, including:

(a) Selective (bilateral) safeguard clauses, which enable emergency safeguard action to prevent injury to domestic producers to be applied against imports from only the country concerned and not to all other suppliers as required by Article XIX of GATT.[31] In addition, these clauses contain criteria for such actions weaker than those required by Article XIX of GATT and applied with respect to market-economy countries;[32]

(b) Special criteria for the imposition of anti-dumping and countervailing measures, based on prices in third countries with market economies or constructed values or even on domestic prices in the importing country of like products.[33] In particular, anti-dumping measures are amongst the most frequent access barriers which exporters from economies in transition encounter on their major markets (see annex table 4);

(c) Exceptions to GATT rules; when countries in transition became contracting parties to GATT, their trading partners obtained legal cover to treat them differently through inclusion of special conditions in their respective protocols of accession, including selective safeguard clauses, some form of import commitment and special surveillance mechanisms.

40. Most of the discriminatory elements of trade regimes still affecting economies in transition derived from perceptions in the major developed market-economy countries that import prices did not provide a sufficient yardstick in countries which, as defined in GATT, had "a complete or substantially complete monopoly of its trade and where all domestic prices are fixed by the State".[34] The GATT contracting parties tended to consider that tariff concessions provided by several Central and Eastern European countries in their accession to GATT and during the Tokyo Round did not effectively improve market access. These concerns were reflected in special provisions of trade laws and in trade regulations designed to prevent "imports from the state-trading" or "non-market-economy" countries deemed to be market-disruptive. The situation has now changed substantially, as almost all countries in transition have

abolished the State monopoly on foreign trade and introduced market-based price mechanisms.

41. All individual economies in transition have been actively pursuing the objective of strengthening their integration into the international trading system both at the multilateral levels and within regional free trade and bilateral arrangements. Neither Czechoslovakia as a founding member of GATT, nor the countries which joined GATT later on, escaped from some or all the discriminatory trade regimes mentioned above. Poland, Romania and Hungary have requested the renegotiation of their protocols of accession with a view to obtaining full contracting party status. Other economies in transition have applied for accession to GATT: in the case of Bulgaria, negotiations are at an advanced stage; the applications of Albania, the Russian Federation, Belarus, Armenia, Moldova, Latvia and the Ukraine are more recent in date. Azerbaijan, Estonia, Kazakhstan, Kyrgyzstan, Lithuania and Turkmenistan obtained or applied for observer status in GATT in 1992-1993. Several countries in transition participated in the Uruguay Round or became associated with it.

42. The Final Act of the Uruguay Round and the modalities for the creation of a World Trade Organization embody progress in the treatment of economies in transition in the area of subsidies, but give rise to continued concerns in other areas. The Agreement on Subsidies and Countervailing Measures contains, in Article 29, positive and flexible provisions for signatories "in the process of transformation from a centrally-planned into a market, free enterprise economy" to apply programmes and measures necessary for such a transformation during a transitional period (including, in principle, prohibitive types of subsidies). Furthermore, the above-mentioned provisions which did not recognize export prices as a yardstick for the calculation of the amounts of estimated subsidies are no longer contained in the new Agreement. However, the new Anti-Dumping Code retains the earlier provisions relating to special provisions applying to so-called state-trading countries.

43. For countries in transition which are already GATT contracting parties under special protocols, it would also appear problematic that the Agreement establishing the World Trade Organization (WTO) provides that all protocols of accession will form part of "GATT 1994". This would imply that any special condition included in their protocols of accession to "GATT 1947" would take precedence over the provisions of the Uruguay Round Agreement.

44. Active international support is therefore required to facilitate the full integration of the economies in transition into the international trading system. The most effective forms of such international support would include: (a) recognition of economies in transition as normal trading partners, i.e. conduct of trade

relations with them on the basis of unconditional MFN treatment and elimination of all residual elements of past discriminatory trade regimes applied against these countries; (b) encouragement of negotiation or renegotiation of their GATT membership on the basis of the Uruguay Round results; and (c) further improvement of market access for their export goods and services as an essential factor in the transition to a market economy. Particular attention should be paid to improving, in a non-discriminatory manner, trading opportunities for these countries in goods and services sectors where they have developed comparative advantage and export capacities. UNCTAD is providing technical support to certain economies in transition, as in the case of other countries, to enhance their benefits from GSP and to strengthen their negotiating capacities, so as to effectively participate in the post-Uruguay-Round international trading system.

Chapter II

TRADE AMONGST ECONOMIES IN TRANSITION: PROBLEMS AND OPPORTUNITIES

45. The downward slide in trade amongst economies in transition, which began in 1989, has turned into a real collapse since 1990 when the former CMEA decided to turn to convertible currency payments in mutual trade. Shortly thereafter, this organization ceased to exist. Mutual exports amongst Central and Eastern European countries and the former Soviet Union about halved between 1988 and 1992. According to ECE estimates, this trend continued in the first half of 1993 with a further decrease of 12 per cent.[35]

46. Exports of Visegrad countries to Central and Eastern Europe, including the former Soviet Union, declined by almost US$10 billion, or about 57 per cent, over the period 1988-1992. Intra-trade amongst the Visegrad countries was no exception, as its value has diminished continuously, by a total of 44 per cent, over the past five years. As a result, the share of mutual trade in total exports dropped from 10.1 to 5.8 per cent. Due to their relative importance, a similar decline in exports to the Soviet Union by about 58 per cent had an even larger impact on the overall exports of Visegrad countries. The former Soviet Union's share fell from 22.6 per cent in 1988 to 12.1 per cent in 1992 (see annex table 2).

47. Trade of South-East European countries with Central and Eastern European countries in transition has contracted to very low levels: Romanian exports to these countries, as well as Bulgarian exports to Visegrad countries and Romania, have fallen by three-quarters over the past five years.

48. Following the dissolution of the former Soviet Union, the CIS States face a similar foreign trade contraction: in 1992 their mutual trade fell by about one-third, and in 1993 by another 30 per cent. This contraction had particularly serious effects on their economies, as CIS States had previously conducted the overwhelming share of their trade within the former Soviet Union: in 1991 imports and exports within the former Soviet Union accounted for between 80 and 99 per cent of total imports and exports worldwide for the 10 smaller CIS member States and between 68 and 84 per cent for the Russian Federation and the Ukraine (see annex table 5). These tight interlinkages between CIS countries demonstrate that their economies and their enterprises cannot afford to be simply cut off abruptly from their main markets by new frontiers, trade barriers and monetary obstacles. Transition, combined with the break-up, brought about the disruption of many traditional trading channels and industrial linkages for supplies of industrial materials and components. Suppliers cannot expect to find new

markets in other regions rapidly. Mutual supplies of energy and basic commodities have declined drastically as well, partially because of unresolved problems due to non-market-conforming prices. The newly emerging private small and medium-scale industries need to be assisted in starting to explore the many opportunities which still exist within CIS for industrial cooperation and mutual trade.

49. A similar situation exists in the Baltic States: until 1991 their trade was almost exclusively conducted within the former Soviet Union, which accounted for 95-97 per cent of their exports and 85-90 per cent of their imports. This pattern is undergoing rapid change, as trade with developed countries, and in particular Western Europe, is rapidly expanding: for example, in 1992 one-quarter of Lithuanian exports (which account for half of those of the Baltic States) were shipped to developed countries, 6 per cent to CEFTA and 6 per cent to the Baltic States.

50. A certain decline in mutual trade during the transition process and after the break-up of countries into separate new States was certainly unavoidable. The adjustment to competitive markets and world market prices was necessary and economically sound, as is the extension of international specialization to further regions and world markets. To the extent that specialization amongst the countries of Eastern and Central Europe had been planned under the former CMEA with little consideration for international market conditions and national factor endowments, such trade contraction is likely to persist.

51. The disruption of mutual trade was a major cause for the sharp deterioration of all economies in transition. Since 1990 industrial output has been contracting at a rate of between 3 and 25 per cent annually in most Visegrad countries and South-East Europe. In 1992 the decline reached 18 per cent in CIS and between 35 and 51 per cent in the Baltic States. This declining trend continued in 1993. Only Poland succeeded in reverting to growth in industrial output as from 1992, and Hungary showed signs of recovery in 1993.[36]

52. Break-up and transition combined to bring about this serious contraction of mutual trade, industrial relations and production. Various factors were at work. A major cause was the inadequacy of a large proportion of the supply capacities in the various economies in transition. There is in effect a large backlog in respect of the rationalization and modernization of production, the upgrading of technological and managerial capabilities and the adaptation of the quality, standards and prices of products. The limited financial capacities of the enterprise sector, the general shortage of investment financing and the slow response of foreign investors are slowing down progress. Furthermore, the enterprise sector of many economies in transition is largely being left to its own devices, as new national support policies are only emerging.

53. A major shake-up for trade within the former Soviet Union came from the monetary sphere, with the replacement of the rouble by national currencies. During the establishment of fully-functioning Central Banks and of monetary and foreign exchange management in CIS and Baltic States, substantial uncertainty, high inflation and heavily fluctuating mutual exchange rates seriously affected mutual trade.[37] Furthermore, hard currency receipts are very attractive to exporters, and instability and inflation are an incentive for transfers abroad.

54. On the other hand, export credits offered by foreign competitors are a major determinant for import sourcing at the present stage for economies in transition. In most of them, such facilities are not available either from commercial banks or from governmental institutions for medium- and longer-term maturities. Where export credits and export credit guarantee schemes exist at all, they usually do not cover exports to Central and Eastern European countries, or imply high-risk premiums. Where Central and Eastern European countries could export machinery, tractors, vehicles and other commodities usually traded on medium- to long-term credit, it is indispensable to establish or extend the scope of financing and insurance facilities to be able to cope with international competition. The lack of elaborate banking services and mutual links may also cause considerable delays and uncertainty for inter-country payments for trade and service transactions:[38] support for mutual cooperation by banks and the expansion and improvement of clearing mechanisms for settlement of commercial transactions has acquired some urgency. The new trading partners within Central and Eastern Europe are largely unknown, and it may be difficult to obtain reliable information and guarantees concerning their financial capacity and solvency. For these reasons, there is a strong need to improve the availability of guarantees for importers in transition economies that would be acceptable to exporters from all regions. Technical cooperation in the form of intensive training programmes, as well as the admission of mature Western banks to domestic financial markets, can make an essential contribution to upgrading the banking services for trade-related payments, financing and insurance.

55. Furthermore, new trade policy barriers have recently been erected amongst various economies in transition as they build up their national customs and apply certain quantitative restrictions to trade with other independent Central and Eastern European countries. While trade is being liberalized within integration arrangements with Western European countries, increasing MFN rates render competition more difficult for exporters from other Central and Eastern European countries in transition. In some cases, new tariffs are imposed on imports from Baltic States at higher-than-MFN rates. While in general mutual trade amongst Central and Eastern European countries in transition is now largely taking

place on the basis of convertible currencies, trade in strategic commodities and in particular fuels is still largely based on barter in CIS States' mutual trade and in their trade with Baltic States. Preferential prices for such strategic goods are progressively being aligned with world market prices. On the other hand, the application of export quotas to mutual trade in major commodities is seriously hampering previous industrial linkages dependent on regional sources of supplies of raw materials, metals and energy.

56. Major attempts have been launched by Central European countries, the Baltic States and CIS to revive their trade, payments and economic cooperation through the establishment of integration arrangements. The Czech Republic, Hungary, Poland and Slovakia have established the Central European Free Trade Area (CEFTA): member countries agreed gradually to reduce their tariffs and other import restrictions on specific products at varying speeds.[39] The Baltic Free Trade Agreement between Estonia, Latvia and Lithuania has a similar but somewhat more limited scope.[40] Other initiatives aimed at promoting regional economic cooperation involve both economies in transition and developing countries, as in the case of the Economic Cooperation Organization or the Black Sea Area Cooperation arrangement.

57. The establishment of a new framework for trade and enterprise cooperation within CIS is proceeding along various avenues: (a) the new CIS Economic Union was proclaimed by the Declaration of the Heads of CIS States in September 1993. It is now on the legal drawing board and should be finalized soon. This framework is to progress by stages, starting from a free trade area and moving gradually to a customs union, a currency union and full economic union; (b) the new CIS economic framework (now eclectic and legally vague) should enable a progressive shift from bilateral to predominantly multilateral instruments for its implementation. Some 80 multilateral economic agreements have already been concluded by now; (c) several initiatives have been taken at the enterprise level to form "FSU transnational corporations" able to become internationally competitive, inter alia through privatization, mergers or acquisitions; (d) furthermore, on 1 January 1994 a new agreement entered into force to eliminate all customs tariffs on intra-CIS trade.

58. In addition, business circles took a number of initiatives beyond governmental measures to reintegrate mutual trade and investment, set up joint ventures or engage in large-scale joint projects for exploiting oil and gas resources. In view of the insufficient functioning of intergovernmental clearing mechanisms, 35 commercial banks set up their own clearing house for settlements throughout CIS.

59. However, CIS agreements reached thus far have only the character of framework agreements, which need to be complemented by detailed plans and timetables for implementation before they will become operational. Second, most CIS agreements have still to undergo ratification processes in the various member countries, which takes a considerable time. Third, intergovernmental agreements are unlikely to be sufficient by themselves to relaunch mutual trade and enterprise cooperation. There is a pronounced need to strengthen national and joint action at the micro-economic level and to assist the large number of newly emerging enterprises, and in particular the SME sector, to explore the still existing opportunities for trade and industrial cooperation within CIS. Fourth, the new CIS institutions are only in the initial phases of organizing themselves. The CIS secretariat, the CIS Bank, etc. need to be considerably strengthened to enable them to provide substantive support, to accelerate implementation, and to take new initiatives to advance mutual cooperation through pragmatic, flexible and rapidly implementable measures.

60. Technical assistance by integration groupings with specialized experience can assist in rendering integration within CIS, CEFTA, etc., more effective. Support by the European Union already plays an important role in the development of CEFTA. International organizations, including UNCTAD, the United Nations regional commissions and development banks also provide technical support for regional integration.

Chapter III

TRADE AND ECONOMIC COOPERATION BETWEEN DEVELOPING COUNTRIES AND ECONOMIES IN TRANSITION

A. Recent trends and the potential for trade expansion

61. The transition towards market economies, the transfer of autonomy of decision-making to enterprises and the major liberalization and deregulation of foreign trade, investment and capital transactions should in the near future create a new environment for trade and investment relations between developing countries and economies in transition.

62. In the new setting, CIS countries remain the main trading partners amongst the economies in transition for the developing countries, with a strong concentration on the Russian Federation, followed by the Ukraine and Kazakhstan. Other Central Asian republics are comparatively small trading partners but have relatively intensive trading relations with developing countries. On average, CIS represented about 1.2 per cent of developing countries' global exports in 1992. The Visegrad countries accounted for another 0.4 per cent of their exports, South-East European countries 0.2 per cent, and the Baltic States 0.1 per cent. However, past trade and economic relations had been concentrated on a relatively small number of developing trading partners: for them, trade with economies in transition is therefore of high importance with regard to exports (see annex table 6), import supplies and investment.

63. Many developing countries have raised concerns about the serious contraction of their trade with major economies in transition. Between 1990 and 1992, developing countries' exports to CIS shrank by 18 per cent, with a further decrease of more than one-third during the first half of 1993. Some trading relations had been on the decline since earlier in the 1980s: this was the case in particular for several African countries and major traditional Latin American suppliers, including Argentina and Brazil. Trade of some others, such as India, Egypt and the Syrian Arab Republic, suffered a serious in 1989/1990. Trade of the former developing country members of CMEA (Cuba, Mongolia, Viet Nam), but also of the Democratic People's Republic of Korea and others, was particularly affected (see annex tables 11 and 12).

64. Only a few developing countries have succeeded in significantly expanding their exports to CIS in recent years, notably China, Taiwan Province of China, the Republic of Korea, Singapore and the United Arab Emirates. Their export increases to CIS and Visegrad countries, mainly to Poland, have been

concentrated in particular on consumer electronics and other consumer goods.[41] But not all dynamic Asian exporters have been successful on these markets. Furthermore, after initial growth, exports have levelled off again recently in the cases of Malaysia and Thailand.

65. Patterns of CIS commodity exports to the traditional developing country partners have remained, as in the past, heavily concentrated on a few commodities, as well as metals and other products of basic industries. This was also the case of most exports from developing countries, as only a few countries, such as India and the former Yugoslavia, had more diversified exports, including a range of industrial products (see annex tables 7 and 8).

66. The reorientation of Visegrad countries' trade to Western Europe shows the potential dynamism of market-based trade. Exports from industrialized countries to the Visegrad countries' markets almost doubled between 1989 and 1992, rising from US$15 billion to $28 billion, and replaced a large portion of the trade previously conducted with CMEA member countries. In contrast, developing country exports to these destinations further declined over the same period by about 8 per cent. A notable exception was the rapid expansion of Polish imports from these countries over the past two years. Some diversification and geographical restructuring of developing countries' trade is taking place in Visegrad markets, with some increase in imports of fuel from Saudi Arabia, the Islamic Republic of Iran, etc., and of consumer electronics and other manufactures from a few new developing partners in South-East Asia, such as Thailand, the Republic of Korea, Singapore, and Taiwan Province of China.

67. Thus the transition process, while having seriously affected traditional partners, has not yet sufficiently advanced to inject widespread and sustained dynamism into new market-based trade relations with a larger number of developing countries. There may be various reason for this, as in many cases the basic trade support instruments are lacking on both sides, in contrast to trade with developed countries.

68. The abandonment of the old system based on bilateral trade has not only led to the elimination of politically motivated trade which was not in accordance with market criteria and prices or possibilities for international specialization based on comparative advantage, but has also affected economically justified trade as a result of inappropriate policies and instruments:

(a) Trade financing is a major factor for competition with developed country competitors. However, few developing countries have the capacity in terms of export financing and export risk guarantees required to compete for the new market-based trading

opportunities in economies in transition. Even for basic commodities, for financial reasons European intermediaries frequently become involved in what were previously direct trading relations with Central and Eastern European countries;

(b) As in the case of intra-trade in Central and Eastern European countries in transition, the gaps prevailing in the banking system, the lack of direct payments and financing relations, as well as difficulties in obtaining reliable guarantees regarding CEECT importers give rise to delays and risks of payments defaults discouraging mutual trade expansion;

(c) Modernization and rationalization of production capacity and the upgrading and adjustment of products to competitive market requirements have not yet reached the stage of bringing about a decisive change in the commodity trading patterns and international specialization of most economies in transition. The lack of long-term credits and FDI financing, as well as of support for outward joint ventures, is likely to hamper such exports as agricultural machinery, heavy electrical equipment and commercial vehicles, though they are of substantial import interest to developing countries;

(d) As trade operators have changed, it would appear necessary to smooth these changes by contact services, trade information and logistical support to bring the unknown partners, including many new small and medium-scale enterprises, together;

(e) The large outstanding debt of certain developing countries vis-a-vis Russia puts a brake on trade expansion.

69. Bilateral agreements and barter trade still play a role in mutual trading relations, in particular for commodities and consumer goods. Payments relating to trade between CIS countries and certain developing countries, such as Cuba, Viet Nam, Mongolia, the Democratic People's Republic of Korea, Egypt, India and Bangladesh, are still settled under clearing arrangements.

70. As transformation progresses, its success ought to create, however, a substantial new potential for market-based trade in the medium and longer term for all suppliers, including the developing countries. An attempt was made to evaluate the potential magnitude of such trading possibilities with developing countries, working on the assumption that specialization of production and trading patterns will lead gradually to market-driven levels of international trade similar to those reached by developed market economies.[42] For that purpose, imports of Central and Eastern European countries in transition from the developing countries were compared first with those of European Community. States with similar levels of 1988 per capita GNP, adjusted for population size, and secondly with those of the EC as a whole, again adjusted

for population size. The first of these calculations shows that Central European imports could rise by a factor of five. This means that if these countries had been importing from developing countries at a level similar to that of the comparable EC countries, they would have been importing a total of five times as much from their 20 largest developing country suppliers. According to similar calculations, the former Soviet Union's imports from the developing countries in 1991 would have been some four times greater. In both cases, most developing countries, and even the larger ones with special links with the former CMEA, such as India and Egypt, would have done better under a free market (see annex table 9).

71. The second set of estimates indicates the change in the volume of trade with the developing countries that might be expected in the longer run when the economies in transition reach the average 1988 EC per capita GNP. It suggests that imports from the 20 largest developing country exporters would be some eight times the pre-transition volume. All the individual exporters would gain (though there may be some question about Afghanistan, Cuba, the Democratic People's Republic of Korea and Viet Nam, for which data are not available) (see annex table 10). These results should be taken only as indicative of the large potential contribution that countries in transition are likely to make to developing countries' trade expansion as they succeed in their reform process.

72. The expansion of opportunities will not be a one-way process. The new export markets for the developing countries in the countries of Central and Eastern Europe will be matched by growing markets for the exports of the latter. The countries of East and South Asia are developing particularly rapidly and offer great opportunities.

73. In the past, Central and Eastern European countries were also engaged in close investment and technological cooperation with certain developing countries. This frequently formed part of the overall contractual framework for economic cooperation and included important financial aid and technical assistance. However, due to financial constraints, the ability of the economies in transition to engage in development assistance will be somewhat limited for some time.

74. In recent years, investment and technological cooperation has also started in the opposite direction. Developing countries which have the entrepreneurial, financial and governmental back-up facilities have started to invest and engage in joint ventures in economies in transition: this has increasingly been the case for China, India and the Republic of Korea, but has occasionally also involved investors from other developing countries such as Malaysia, Thailand and Brazil. Such investment can offer substantial know-how relating to the application and adaptation of

modern technologies in the manufacturing process. It could eventually become important in such sectors as telecommunications, consumer electronics, robotics, computer-controlled garment-making machinery or software.

B. Trade and investment policies

75. The fact that economies in transition, as well as many developing countries, have been the most dynamic forces of liberalization of foreign trade and investment should ultimately be reflected in growing mutual relations as well.

76. Furthermore, the Visegrad countries, Bulgaria and the Russian Federation have adopted or confirmed their GSP schemes in favour of developing countries. Others, such as Belarus and the Ukraine, have indicated their intention to introduce GSP schemes. The schemes are generally liberal, as they cover in principle all types of products and grant duty-free access to least developed countries. The preference margin varies: it is 30 per cent in Poland, with zero tariffs on tropical products; the Czech republic levies GSP tariffs on eligible imports at 25 per cent of MFN rates, while most tropical products are admitted duty-free. Hungary and Bulgaria have a three-column tariff schedule defining GSP rates for each heading. The scheme of the Russian Federation provides for GSP tariffs at 50 per cent of MFN rates.

77. Certain developing countries, however, have expressed concern that recent increases in MFN rates by certain economies in transition have led to increased tariffs on developing countries' imports. At the same time, developing countries' enterprises face increasing difficulties in competing with firms from Western European countries, for whom import protection is being progressively reduced under the Europe Agreements and the Free Trade Agreements with EFTA countries. This creates a price differential to their disadvantage. All efforts should therefore be made by economies in transition to stabilize and improve GSP treatment in favour of developing country suppliers. The remaining industrialized CIS States should be encouraged to introduce national GSP schemes.

78. Central and Eastern European States have done much to establish a welcoming and attractive environment for foreign investors. However, there is still much to be done in simplifying bureaucratic procedures and clarifying the regulations, establishing property rights, defining environmental obligations, and indemnifying against nationalization or confiscation, as well as taking into account specific requirements of smaller and medium-sized foreign investors, including those from developing countries. The newly industrialized countries, particularly those in South-East Asia, are likely to take advantage of new opportunities for FDI and joint ventures in CIS. However, there have been only a few

cases of bilateral investment cooperation and guarantee agreements, which are important for the security of investments, being concluded between economies in transition and developing countries. It will be necessary to enlarge the network of such bilateral investment agreements and double taxation agreements, to intensify investment financing and guarantees for home enterprises, and to establish investment promotion offices and investment advisory services at both ends.

C. International support for cooperation in trade and investment

79. Although substantial technical assistance is extended by multilateral organizations and bilateral donors to economies in transition in such areas as foreign trade and investment legislation, assistance focusing specifically on support for trade and investment cooperation between economies in transition and developing countries has remained scarce. However, an important step was recently taken by the United Nations General Assembly, which called upon the international community to consider assisting the developing countries whose economies have been most affected by the changes in their economic relations with the economies in transition in order to adapt to those changes.[43] UNCTAD for its part can make a contribution in the field of trade and investment and has started to provide technical cooperation in the form of training, including the organization of a workshop for trade representatives and economic counsellors of developing countries accredited to CIS States. Preparations are under way for business weeks in developing countries during which the business communities from both sides can discuss possibilities for initiating or expanding trade. Substantial further needs exist, and various United Nations bodies, particularly UNCTAD, as well as regional economic commissions and ITC, could make major contributions through their regular analytical and substantive work, as well as their technical cooperation activities, to expansion of mutual trade and investment.

80. Bilateral and international support could in particular foster a more favourable policy environment for trade and investment cooperation between economies in transition and developing countries.

81. International and bilateral financial support could help to bridge gaps in trade financing[44] and allow the exploitation of the potential for investment and technological cooperation between such countries.[45] Untying of bilateral and regional credits should be pursued whenever feasible in favour of procurement from developing countries (including those belonging to CIS). Second, as long-term financing and equity are scarce in most cases at both ends, the feasibility of an international co-financing scheme should be explored to prepare, promote and finance the investment and take-

off phase of FDI and joint venture projects between such countries. Finance would be concessional and additional to finance provided by the directly participating enterprises and the governments of the countries concerned. Experience with the European Union's Scheme of International Investment Partners, Finnfund and Project Preparation Facilities of the World Bank and other regional development funds, as well as the operations of EBRD, could be useful for such an evaluation. Third, international or bilateral support could assist in relaunching and exploiting the high existing potential for technological cooperation. Accordingly, the feasibility should be explored of extending such programmes as PHARE and TACIS to cover technical cooperation projects between economies in transition concerned and developing countries. Developed countries should also consider extending procurement and participation of experts from developing countries under such schemes.

82. The Cartagena Commitment has already set out UNCTAD's role in this area: the Trade and Development Board should periodically assess the process of transition in the field of trade, including support to transition, trade liberalization and trade with developing countries; UNCTAD should identify the opportunities resulting from the above developments for the mutual benefit of developing countries and individual countries of Central and Eastern Europe; and technical assistance is to be provided with a view to helping developing countries derive the maximum benefit in terms of expansion of trade and reinforcement of economic cooperation with individual countries of Central and Eastern Europe. Furthermore, in the context of the forthcoming analysis and assessment of the outcome of the Uruguay Round, the Board should examine, inter alia, the problems and opportunities which the economies in transition in Central and Eastern Europe face in increasing their participation in international trade in goods and services. UNCTAD is ready to contribute, within its mandate, through research, analysis and technical cooperation to complement activities of other international organizations.

NOTES

1. The Commonwealth of Independent States (CIS), comprises Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. The Baltic States include Estonia, Latvia and Lithuania; the Visegrad countries include the Czech Republic, Hungary, Poland and the Slovak Republic; South-East European countries include Albania, Bulgaria, and Romania.

2. See, for example, UNCTAD, "Trade policy reforms in developing countries and the international support required", TD/B/39(2)/3 (1993), and UNCTAD, "Measures and incentives for enhancing the competitiveness of sectors with export potential in developing countries: Evidence and lessons of experience", UNCTAD/ITP/90 (1992).

3. These issues were discussed in depth by the Trade and Development Board at its fortieth session. The Board proposed measures to improve interaction between larger economic spaces and the multilateral trading systems; stressed the special responsibility of integration groupings with regard to their implication for weaker trading partners, particularly developing countries, and encouraged members of groups to intensify support, technical cooperation and investment cooperation to such countries. (See conclusion 408 (XL) adopted by the Trade and Development Board at the first part of its fortieth session, TD/B/40(11)/14, Volume 1.) For a detailed analysis, see "Evolution and consequences of economic spaces and regional integration processes, TD/B/40(1)/7, UNCTAD, 1993.

4. See, "UNCTAD's contribution within its mandate to sustainable development: trade and environment. Trends in the field of trade and environment in the framework of international cooperation", TD/B/40(1)/6.

5. See "Trade Policy reforms ...", and "Measures and Incentives ..."

6. See, inter alia, "Foreign direct investment in Africa", E/C.10/194/6, and the report of the Expert Group on Policy options for attracting FDI to Africa (forthcoming). This is one of the issues under consideration by the Ad Hoc Working Group on the Interrelationship between Investment and Technology Transfer.

7. See "Asian model attests to value of openness and minimal policy-induced distortions", IMF Survey, volume 22 (November 1993).

8. Trade and Development Board agreed conclusion 401 (XXXIX), adopted at the Board's thirty-ninth session (first part), March 1993, TD/B/39(2)/26.

9. See "Trade policy reforms ...", Chapter 2E.

10. See the documentation submitted by the Secretary-General of UNCTAD to the twentieth session of the Commission on Transnational Corporations on "Trends in foreign direct investment" (E/C.10/1994/6) and "FDI to least developed and other developing countries outside Africa" (E/C.10/1994/7).

11. For example, tariffication of national import quotas led to extremely high MFN rates for imports exceeding a special fixed tariff quota; national import quotas for some fishing products were temporarily extended to the Community as a whole. The common market organization for fruit and vegetables, which gave rise recently to some market access problems and countervailing charges, was extended to tropical fruits. Furthermore, the European Economic Area liberalized mutual trade in a number of processed tropical products, which remained subject to relatively high duties for imports from developing countries.

12. See, inter alia, "Collapse and transition in Central and Eastern Europe", chapter V of the Trade and Development Report 1993, UNCTAD/TDR/13, Geneva.

13. See section 2 below regarding relations with GATT, as well as chapter III on CIS.

14. See "Evolution and consequences of economic spaces and regional integration", TD/B/40(1)/7.

15. See section 3 below regarding integration into the international trading system and chapter II on CIS.

16. For more details, see Economic Bulletin for Europe, volume 45 (1993), p.72.

17. See UNCTAD Handbook of International Trade and Development Statistics 1992, Part 7.3, special tables on CIS, Baltic countries and Georgia (former USSR), 1993 (E/F.93.II.D.9).

18. Examples of products where such increased competition is likely to arise within the context of Europe Agreements can be found in "Evolution and consequences of economic spaces and regional integration processes", TD/B/40/(1)/7, paragraphs 53 and 54. See also Economic Review, EBRD, London, September 1993.

19. A more comprehensive review of the literature on prospective competitive exports from Central and Eastern European countries in transition contained in M. Davenport, "Fostering integration of the countries in transition in Central and Eastern Europe into the world economy and the implications for the developing countries", UNCTAD/ITD/7. See also: Economic Review, EBRD, London, September 1993.

20. See "Banking Reform", in "Current Economic Issues," EBRD Review, July 1993.

21. M. Davenport, op.cit.

22. There is some risk that bilateral and multilateral ODA for economies in transition could compete with ODA for developing countries. While actual disbursements of ODA to economies in transition remain far behind original pledges, there may be shifts of priorities in certain aid programmes, in view of the scarcity of budgetary resources. The General Assembly therefore, in its resolution 47/175, urged the developed countries and multilateral financial institutions to continue to ensure that the resources allocated to the economies in transition do not reduce or divert official development assistance allocated to the developing countries.

23. See CEECT Register of the OECD, which provides a data base on advisory services, technical assistance projects, training and research undertaken by bilateral and multilateral donors in favour of Central and Eastern European economies in transition, including CIS and Baltic States in a large range of areas such as: trade, investment and private sector participation; the financial services sector; state enterprise restructuring, privatization, small and medium enterprises development; management capacity; conversion of defence-related industry and utilization of scientific and technological resources; as well as a large number of other sectors, including transport, telecommunication, energy, environment, food, health, housing, social safety nets.

24. See "Strengthening the negotiating capacity of developing countries in their dealing with transnational corporations", Report of the Secretary-General of UNCTAD on technical cooperation activities (forthcoming).

25. Source: World Bank, World Debt Tables, 1992/1993.

26. See East West Investment News, No. 2, Summer 1993, United Nations Economic Commission for Europe.

27. Daily Bulletin of the United States Mission in Geneva, 18 November 1993, p.8.

28. Several of them do not even enjoy MFN treatment in the United States, in the absence of bilateral trade agreements with that country.

29. By virtue of Council Regulation (EEC) No. 3420/83 on import arrangements for products originating in state trading countries, not liberalized at the Community level, OJ No. L 346, 8 December 1983 (and numerous amendments to that regulation from 1983 to 1993).

30. See "Export Access to Western Markets" in "Current economic Issues", EBRD Economic Review, July 1993.

31. For example, the selective safeguard clause in the recent Interim Agreements between the European Community and Central and Eastern European countries, which are parts of more comprehensive "Europe Agreements" (Official Journal of the European Communities, L 114-116, Volume 35, 30 April 1992). "Market disruption safeguards" are contained in the Agreements on Trade Relations between the United States and former USSR republics (Russian Federation, Kazakhstan, Ukraine, etc.)

32. For example, section 406 of the United States Act of 1974 sets special provisions for investigation of "market disruption from non-market economies".

33. These provisions are based on Article 15 of the GATT Subsidies Code as well as Article 2:7 of the GATT Anti-Dumping Code, both drawn from the interpretative note to Article VI of GATT; see also Council Regulation (EEC) No. 2423/88 of 11 July 1988, O.J. No. L 209, page 5 of Article 2 and page 3 of Article 3.

34. Text of GATT, Annex I, Notes and Supplementary Provisions, Article VI, paragraph 1:2, Geneva, July 1986.

35. Economic Bulletin for Europe, vol. 45 (1993), table 3.1.1.

36. Ibid, table 2.2.1.

37. See "Banking reform", in "Current Economic Issues", EBRD Review, July 1993.

38. Settlement of balances between commercial banks across CIS borders can take months. Many suppliers are, at present, unwilling to ship goods until payment has been credited to their accounts. In fact, the "pre-payment system" currently in force in the Russian Federation requires the inter-account transfer to precede and delivery of goods. The methods of processing, clearing and settling business payments have to be modernized on an urgent basis to facilitate trade expansion. See Russian

Economic Reform: Crossing the Threshold of Structural Change, World Bank Country Study, Washington, D.C., 1992;
C. Michalopoulos and D. Tarr, Trade and Payment Arrangements for States of the Former USSR, Studies of Economies in Transition, paper No. 2, World Bank, Washington, D.C., 1992.

39. See "Evolution and consequences of economic spaces and regional integration processes", TD/B/40(1)/7, chapter II.C.

40. See "Regional initiatives " and "Trade and payments between republics of the former Soviet Union", in EBRD Annual Review, 1992.

41. Economic Integration, OECD Economies, Dynamic Asian Economies and Central Eastern European Countries, OECD, Paris, 1993.

42. See M. Davenport, op.cit.

43. General Assembly resolution 47/175.

44. See inter alia, the background documentation for the forty-seventh and forty-eighth session of the General Assembly on this topic: "Impact of the evolution of East-West relations on global growth and development", A/47/403 and "Development and international economic cooperation: Impact of the recent evolution of the economies in transition on the world economy", chapter III, Report of the Secretary-General, A/48/331, September 1993.

45. In its resolution on "Changes in East-West and North-South regulations" A/30/392/91 of 14 May 1992, the European Parliament called for a joint European East-West-South Community initiative within a wide-ranging Community cooperation programme. The Commission, the Council and the countries of Central and Eastern Europe should, inter alia, consider strategies for coordinated cooperation in developing countries; ties frequently attached to development aid should be reduced; the Community should promote an overall trade policy, which takes account of the interests of developing countries and the countries of Eastern Europe; and the Commission should develop initiatives and grant the necessary financial assistance to bring about trade flows between the Eastern European countries and the developing countries. It will be of interest to see the follow-up to this initiative of the European Parliament (see Official Journal of the European Communities, No. C 150 of 16 June 1992).